

Looking For a New Consultant? Here's What to Ask on the RFP

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When institutional investors are hunting for a new consultant the questions they include on their request for proposal (RFP) can sometimes be ambiguous and make the responses difficult to gauge. To get the most out of an RFP, investors need to hone in on a consultant's skill set and get into the weeds of their philosophy, according to third-party advisors, consultants and CIOs.

For Alpha Capital Management, a firm that offers investment consultant and outsourced CIO search services for institutional investors, questions that track firm revenue, client-to-consultant ratio, the type of advice offered, relationships between the consulting and research team and skill set are some of the most important topics to include in a consultant RFP.

"There's an art and a science to writing an RFP," says **Brad Alford**, founder and CIO at Alpha Capital Management. "Lots of investors pull something off the web and think that's going to work. That's just not the case."

Questions that can bring out a consulting firm's specific qualities can help differentiate the competition.

"It's a really hard process to write out questions," says **Peter Madsen**, CIO of the \$2 billion **Utah School & Institutional Trust Funds Office**. "There were questions that you might think were clear, but end up being confusing for the other side."

For example, some consultants would use the same exact answer for separate questions involving asset allocation, risk management and portfolio construction, he says, speaking about the search process that led them to hire Fund Evaluation Group. The questions were aimed for consultants to showcase their custom ability through those factors.

"We want to view the world in a way that works for us and want them to be able to implement that through tools, people and collaboration," he says.

Alford's firm typically includes 150 questions in an RFP on behalf an institutional investor, but believes there are specific key points to which investors should pay close attention.

First, Alford likes to ask consultants how much firm revenue comes from institutional consulting activity, according to a recent research report.

“We use it as a way to gauge the firm’s commitment to providing traditional consulting services versus [outsourced CIO] services and/or investment management services,” according to the research report.

The firm also includes questions involving the client-to-consultant ratio at the firm and how that figure is calculated. But, to get accurate metrics, Alford urges consultants to be consistent with their responses.

“Some firms simply compare the number of clients to the number of investment professionals to calculate the ratio (thus including dedicated research professionals and support staff along with client-facing consulting professionals),” the report states. “Others only include consulting team members.”

Consultants also have a better chance of winning business if they offer insight on an institution’s existing investment policy statement, says Alford. There have been a few occasions where a prospective consultant has expressed issues with the client’s current investment policy statement, which shows that a consultant looks deeper than asset allocation and performance.

While advice and investment policy-related questions have worked well for Segal Marco Advisors in the past, institutions and third-party search firms must make sure they provide enough information to the consultant firm to further analyze the investor, says **Michael Joyce**, a senior v.p. at the firm.

Indeed, some issues can crop up when giving away free advice, says **Bryan Ward**, a senior partner at Aon Hewitt.

“If we’re going to go and give advice we need some insight,” he says. “[What’s your] risk tolerance? What’s the goal for the plan? It’s hard to make recommendations if you don’t know those things. You can end up walking into a finalist meeting completely off-base.”

Some institutions ask consultants to look at a portfolio from a “clean slate” perspective, which can be “land mines for firms that don’t know the organization well,” he says.

Alford and the firm further examine a consultant shop by assessing the relationship between consultants and the research department.

“The best research capabilities in the world won’t do a client any good if the consulting team isn’t receiving, processing, and funneling this information to the client,” he states in the

report. “Ensuring that there are strong processes and procedures in place to keep these lines of communication open is a way of ensuring the client benefits from the full capabilities of the firm.”

Data is another good indicator of a firm’s success. Alford’s firm always asks “How do you measure your success as a consultant? Provide data as support.” He finds that this can be a real differentiating factor for a consultant, but difficult to quantify.

“Well, a lot of [consultants] point to performance,” he says. “You’re hiring them for very good performing portfolios compared to peers.”

Another way consultants have measured success is through turnover and retention metrics, he says.